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**U.S. Senate**  
**Republican Policy**  
**Committee**

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Don Nickles, Chairman  
Doug Badger, Staff Director



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**U.S. House**  
**Republican**  
**Conference**

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John Boehner, Chairman  
Barry Jackson, Executive Director

November 16, 1995

**Key Tax Provisions in the Balanced Budget Act**

**Middle-Class Families Are Winners  
Under the Balanced Budget Act**

***Note: All estimates are based on preliminary figures available from CBO on November 16, 1995. Final CBO figures are expected on November 17, 1995.***

The White House is guilty of falsely accusing Republicans of massive budget cuts. There is one area where they would finally be right: our budget delivers on much deserved tax cuts to American families. Of course, the President doesn't want to talk about these cuts because they still don't make up for what he took away from taxpayers in his massive 1993 \$241 billion five-year tax increase — the largest in history.

For a man who has recently admitted his tax hike was too high — "*It might surprise you to know that I think I raised them too much too.*" [Presidential Dinner, Houston, 10/17/95] — you'd think he'd be happy to endorse the restoration of much-needed income to hardworking American families.

- **The balanced budget package's middle-class tax cut fulfills a promise to the American taxpayer that the President never kept. It leaves more money with the people who earned it, rather than with a Washington bureaucracy that spends it.**
- **Every middle-class taxpaying family will receive a tax reduction under this budget.**
- **Seventy-six million people will benefit from the major provisions of the proposal.**
- **Seventy-three percent of the entire package goes directly to helping families throughout their lives.**

— In 1996, almost nine-tenths — 88 percent — of the tax reduction will go to those earning under \$100,000.

— In 1996, almost three-quarters — 72 percent — of the tax reduction will go to those making under \$75,000.

**Student Loan Interest Deduction: \$1.0 billion:** An exemption for up to \$2,500 of interest paid on a commonly-defined student loan during the taxable year for those receiving no other federal assistance. The credit is phased out between modified AGI of \$45,000-\$65,000 for singles and \$65,000-\$85,000 for married couples. The phase-out amounts are indexed to increase with the rise in inflation. The exemption is good for up to five years of loan repayment.

**Personal Savings and Investment Incentives: \$67 billion. Growing the economy.**

- The economy is the engine that drives the nation. For too long, Washington has been a heavy burden that this engine has strained to pull while trying to create jobs, increase wages, improve productivity, and raise living standards. We believe it is time Congress lightened the load Washington imposes.
- Our tax cuts are aimed at the hardworking Americans who want to plan for their retirement and keep more of the money they have saved. For some, these savings will be used to create more and better jobs. As a result, not only is this budget more fair for savers, but also for those who benefit from the increased jobs and economic growth these tax cuts will encourage.

**Individual Retirement Accounts: \$11.8 billion:** Starting next year, we will increase the availability of IRAs for 2 million people. This will allow people to plan for their own retirement, (via penalty-free withdrawals up to \$10,000), purchase a first-time home, and help with their children's education, medical emergencies, and unemployment — rather than planning only on the government to do it. We allow homemakers to participate in IRAs — just as they participate in their families' well-being — with a tax-free contribution of up to \$2,000 annually. We raise the current phase-out AGI ranges to \$85,000-\$95,000 for a single, and \$100,000-\$120,000 for a couple, and index them for inflation.

**Small Business Incentives: \$3.2 billion:** Direct help to the small businesses that are the vast majority of America's employers and have created two out of every three net new jobs over the last two decades. This provision increases the expensing limitation from \$17,500 today to \$25,000 in 2002.

**Capital Gains: \$35.8 billion:** Nine million taxpayers will benefit from having the effective tax rate lowered to 19.8 percent — for corporations: 28 percent — for gains realized after January 1, 1995. Over 80 percent of these tax cuts will go to individual savers. In 1993, over 83 percent of reported capital gains went to those making under \$100,000; over 74 percent went to those making under \$75,000; and 57 percent went to those making under \$50,000. Additionally, those who lose money on the sale of a house will be able to deduct up to \$3,000 per year as a capital loss.

**Family-Owned Businesses and Farms: \$4.6 billion:** Lowers estate taxes on family-owned businesses and farms by exempting from estate tax the first \$1 million of family-owned business and farms and reduces the estate tax by 50 percent on the next \$1.5 million of family-owned businesses and farms. A family-owned business and farm is defined as: One family owns 50 percent; two families own 70 percent; three families own 90 percent; and the decedent's family owns at least 30 percent. The family-owned business and farm must be equal to at least 50 percent of the value of the estate. Heirs (or heir's family) must participate in the business or farm for 10 years after decedent's death.

**Unified Credit: \$7.4 billion:** In general, it increases the unified credit until it reaches \$750,000 in 2001. The provision is indexed for inflation in following years.

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